



**U.S. Department of Justice**

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District of New Hampshire*

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**MEDIA RELEASE**

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**FORMER ENTERASYS OFFICIAL PLEADS GUILTY  
IN ACCOUNTING FRAUD SCHEME**

**CONCORD, NEW HAMPSHIRE** - Peter E. Papps, Acting United States Attorney for the District of New Hampshire, and Assistant Attorney General Christopher A. Wray of the Criminal Division, U.S. Department of Justice, announced that today **Enrique “Henry” P. Fiallo**, formerly the top executive at **Enterasys Network Systems, Inc.**, pleaded guilty in U.S. District Court in Concord, New Hampshire, to a charge of Conspiracy to Commit Securities, Mail and Wire Fraud. The criminal charge was based on accounting fraud which took place at the computer network products company as part of a scheme to falsely inflate Enterasys’ revenue to meet Wall Street projections. Fiallo served as the Chairman, Chief Executive Officer and President of Enterasys, which was formerly based in Rochester, New Hampshire.

In connection with his plea, Fiallo admitted that he entered into a conspiracy with other Enterasys officials to falsely and improperly inflate Enterasys’ public revenue reports to meet previously announced company targets and Wall Street expectations. He also admitted that, in August 2001, he learned that Enterasys’ actual revenues for the company’s fiscal quarter ending later that month were about \$20 million short of forecasts. Fiallo acknowledged that, as part of the conspiracy, he and others at Enterasys implemented a scheme to make up the revenue shortfall by “investing” Enterasys funds in “investee” companies in return for purchases of Enterasys products with those same funds.

Fiallo further acknowledged that he knew that, in many instances, the “investee” companies were financially unable to pay for the products they agreed to purchase from Enterasys without the funds supplied by Enterasys and that, in such instances, Enterasys could

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not properly recognize revenue under relevant accounting rules. He stated that he and his co-conspirators therefore directed the "investee" companies to use the money from Enterasys to purchase Enterasys products from Enterasys' outside distributors and third party resellers. Fiallo acknowledged that he and his co-conspirators then directed the distributors and resellers to submit purchase orders to Enterasys for those products and to pay for them with the same money that Enterasys had supplied to the "investee" companies.

Fiallo also admitted that he and his co-conspirators structured the transactions as so-called "three corner" transactions so that Enterasys' books and records would not reveal the connection between Enterasys' "investment" funds and the use of those funds to purchase Enterasys products, thereby appearing to generate revenue and disguising the true nature of the transaction from Enterasys' outside auditors and the investing public. He also admitted to making false statements based upon the improperly recognized revenue to Enterasys' auditors and in press releases, filings with the Securities and Exchange Commission and a conversation with securities analysts. Finally, Fiallo acknowledged that the conspiracy resulted in a loss of at \$20 million.

Fiallo faces a potential sentence of up to five years imprisonment and a fine of up to \$250,000. Fiallo's sentencing is scheduled for December 17, 2004.

Gayle Spence Luacaw, a former Enterasys Vice President, Anthony L. Hurley, Enterasys' former Assistant Controller, and Gary M. Workman, the former president of Enterasys' Asia-Pacific Sales Division, each entered guilty pleas in connection with the scheme earlier this year. They are scheduled to be sentenced in March 2005. Two additional defendants charged in the scheme are scheduled to go to trial in October 2004.

This case is being brought under the auspices of the President's Corporate Fraud Task Force. The investigation was conducted by the Federal Bureau of Investigation and the U.S. Postal Inspection Service and was coordinated with a civil investigation conducted by the SEC's Central Regional Office in Denver. The case is being prosecuted by Assistant United States Attorney Bill Morse, and, from the Department of Justice's Criminal Division, Fraud Section, Assistant Chief Thomas Hanusik and Trial Attorney Michael Koenig.

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